

Legislative Audit Division

State of Montana



Report to the Legislature

October 1997

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1997

Board of Regents and Commissioner of Higher Education

This report contains seven recommendations. Issues addressed in the report include:

- ▶ Internal controls over telephone calling cards.
- ▶ Federal reporting.
- ▶ Federal cash management.
- ▶ Recording vocational technical education millage.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act of 1984 and Amendments of 1996, and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1995 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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October 1997

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Board of Regents and Commissioner of Higher Education (CHE) for the two fiscal years ended June 30, 1997. This report contains seven recommendations where CHE could enhance compliance with state and federal laws and regulations and accounting policy. The written response to the audit recommendations is included at the end of the audit report.

We thank the commissioner and his staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

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Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1997

Board of Regents and Commissioner of Higher Education

Members of the audit staff involved in this audit were Laurie Evans, Jim Manning, Victoria Murphy, and Paul O'Loughlin.

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Appointed and Administrative Officials

Board of Regents of Higher Education

**Term
Expires**

Marc Racicot, Governor*

Nancy Keenan, Superintendent
of Public Instruction*

Jim Kaze, Chairman Havre 1999

Paul F. Boylan Bozeman 1998

L. Colleen Conroy Hardin 2001

Patrick P. Davison, Vice Chairman Billings 2000

Jason Thielman, Student Regent Columbia Falls 1998

Ed Jasmin Bigfork 2004

Margie Thompson Butte 2003

*Ex officio member

Administrative Officials

Dr. Richard Crofts, Commissioner of Higher Education

Dr. Stuart Knapp, Deputy Commissioner for Academic Affairs

Rod Sundsted, Associate Commissioner for Fiscal Affairs

Laurie O. Neils, Director of Budget and Accounting

Office of the Commissioner of Higher Education

We performed a financial-compliance audit of the Board of Regents and the Office of the Commissioner of Higher Education for the two fiscal years ended June 30, 1997. The office implemented all five recommendations from the prior audit report.

This current audit report contains seven recommendations. The first section in the report discusses ways in which the office can improve compliance with federal regulations. There are four recommendations related to internal controls over telephone calling cards, cash management, federal reporting, and time and effort.

The second section discusses areas where the office can improve compliance with state laws. There is one recommendation related to the recording of Vocational Technical Education millage.

The third section discusses prescription drug rebates, while the last section discusses accounting errors related to agency fund activity. The report also contains a disclosure issue regarding insurance fund participants.

We issued a qualified opinion on the financial schedules contained in the report. This means the reader should use caution when relying on the presented financial information and the supporting data on the Statewide Budgeting and Accounting System.

Report Summary

The listing below serves as a means of summarizing the recommendations contained in the report, the agency's response thereto, and a reference to the supporting comments.

| | | |
|--------------------------|---|----|
| <u>Recommendation #1</u> | We recommend the office continue to improve internal controls over telephone calling cards. | 8 |
| | <u>Agency Response:</u> Concur. See page B-4. | |
| <u>Recommendation #2</u> | We recommend the office: | |
| | A. Follow the terms and conditions of the cash management improvement act agreement for cash requests related to the Vocational Educational - Basic Grants to States program. | |
| | B. Work with the Department of Administration to modify the cash draw techniques if the current schedules are not appropriate. | 10 |
| | <u>Agency Response:</u> Concur. See page B-5. | |
| <u>Recommendation #3</u> | We recommend the office: | |
| | A. Establish procedures to ensure the spending within the allocation of the Vocational Education - Basic Grants to States is properly reported. | |
| | B. File amended reports to correct the inaccurate reporting for the federal fiscal year ended September 30, 1996. | 12 |
| | <u>Agency Response:</u> Concur. See page B-6. | |
| <u>Recommendation #4</u> | We recommend the office allocate all personal service activity on an after the fact time and effort basis in accordance with federal regulations. | 13 |
| | <u>Agency Response:</u> Concur. See page B-7. | |
| <u>Recommendation #5</u> | We recommend the office work with the Department of Administration to ensure: | |
| | A. All future mill levy revenue is properly recorded on the accounting records. | |

- B. \$314,086 is transferred to the General Fund from the Special Revenue Fund. 14

Agency Response: Concur. See page B-8.

Recommendation #6

We recommend the office:

- A. Seek reimbursement for the \$8,309 overpayment to the mail order pharmacy.
- B. Implement procedures to ensure the proper amount of prescription drug rebates is paid to the mail order company.
- C. Ensure prescription drug rebates are properly recorded as revenue on the accounting records. 15

Agency Response: Concur. See page B-9.

Recommendation #7

We recommend the office record Agency Fund activity in accordance with state law and policy. 16

Agency Response: Concur. See page B-10.

Introduction

We performed a financial-compliance audit of the Board of Regents and Commissioner of Higher Education for the two fiscal years ended June 30, 1997. The objectives of our audit were to:

1. Determine compliance with applicable state and federal laws and regulations.
2. Make recommendations for improvement in the office's management and internal controls.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the agency's financial schedules are fairly presented for the two fiscal years ended June 30, 1997

We coordinated our financial-compliance audit work with the annual financial-compliance audits of the Montana Guaranteed Student Loan Program (#96-6 and #97-6). The Montana Guaranteed Student Loan Program allows eligible students to receive guaranteed loans from lending institutions for post-secondary education.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations made in this report. Other areas of concern deemed not to have significant effect on the successful operations of the agency are not specifically included in the report, but have been discussed with management.

As required by section 17-8-101(5), MCA, we audited and are reporting on the reasonableness of internal service fund type fees and fund equity balances at the office. The internal service funds at the office are the Montana University System group program and employee flexible spending accounts. We reviewed both of these internal service fund activities and determined the rates are commensurate with costs and fund equity balances are reasonable.

Introduction

Background

Board of Regents of Higher Education

Article X of the Montana Constitution establishes the Board of Regents of Higher Education (board) to govern and control the Montana University System. The board has administrative and supervisory control of the units of the university system and general supervision of community colleges. The board consists of seven members appointed by the Governor and confirmed by the Senate. The Governor and Superintendent of Public Instruction are ex-officio members of the board.

Commissioner of Higher Education

As required by Article X of the Montana Constitution, the board appoints a Commissioner of Higher Education. The board prescribes the term and duties of the commissioner. The commissioner is responsible for providing leadership, technical assistance, and staff support to the board, and the units of the university system. Duties of the Office of the Commissioner of Higher Education (office) include academic planning and curriculum review, budgetary planning and control, legal services and labor negotiation policies and procedures. Currently the office is organized into thirteen programs. A brief discussion of each program follows:

Administration Program - provides general administration for all the duties of the office. This includes academic, financial, and legal administration as well as labor relations and personnel administration.

Student Assistance Program - consists of the Western Interstate Commission on Higher Education (WICHE) student exchange program, the Washington, Wyoming, Alaska, Montana, Idaho (WWAMI) cooperative medical program, the State Student Incentive Grant (SSIG), the Paul Douglas Teacher Scholarship program, the Perkins Loan Fund match, state matching dollars for the federal Supplemental Education Opportunity Grant (SEOG), and the state's share of Montana's Workstudy Program.

Dwight D. Eisenhower Mathematics & Science Education Act - provides funds to upgrade the teaching skills of teachers in the mathematics and science disciplines. Grants are awarded to all

institutions of Higher Education within the state on a competitive basis.

Community College Assistance - is the distribution of the state's assistance to the three community colleges.

MUS Group insurance Program - accounts for all activity related to the University System employee benefits program.

Talent Search - is a federally funded program to provide career and financial aid counseling to students who are either low-income, physically handicapped or culturally deprived.

Carl D. Perkins Administration - the board is designated as the sole state agency for the federal Vocational Education - Basic State Grants, formerly known as Carl D. Perkins. This program supports vocational education at the secondary and post secondary level.

Appropriation Distribution - is the distribution of the state's financial assistance to the university units.

Agency Funds - accounts for funds temporarily held by the office for others. These funds relate to college license plate fees, the wellness program and the university system optional retirement plan.

Tribal College Assistance - is the distribution of the state's financial assistance to tribal colleges. This program started in the 1996-97 biennium and was not continued into the 1998-99 biennium.

Guaranteed Student Loan Program - processes loan applications, maintains records on student borrowers, warehouses records, collects loan payments and performs other duties related to the federal guaranteed loan program.

Board of Regents - Admin. - consists of the costs associated with the operation of the board.

Board of Regents Bond Payments - the board entered into a contract with the school district in Billings to retire the district's bonded indebtedness when the Billings College of Technology was transferred to the state. Payments are made through the Department of Administration.

Prior Audit Recommendations

Prior Audit Recommendations

We performed the audit of the Board of Regents (board) and the Office of the Commissioner of Higher Education (office) for the two fiscal years ended June 30, 1995. The 1995 report contained five recommendations and a disclosure issue. The office implemented all five recommendations. The disclosure issue is discussed further in this report on page 17.

Findings and Recommendations

Federal Compliance Issues

The office received funding from the U.S. Department of Education and the U.S. Department of Labor. During our audit we noted four areas where the office could enhance compliance with federal laws and regulations. These issues are discussed in the following sections.

Internal Controls Over Telephone Calling Cards

It is management's responsibility to establish and maintain an adequate internal control structure for the office, including internal control systems used in administering federal financial assistance programs. The office receives federal assistance from the Department of Education for the Talent Search program (CFDA #84.044A). This program is designed to identify disadvantaged youths with potential for post secondary education and to encourage them to attend post-secondary schools.

This program has several employees stationed throughout the state. To accommodate the employees' need to make long distance telephone calls, the office issues telephone calling cards to these employees. In our 1991 audit report we had identified instances where an employee had made long distance calls for personal business. The office implemented procedures to help detect improper calls by having employees fill out telephone logs and turn them into the main office each month for review. In 1996, the office identified two employees that were improperly using their telephone calling cards. These cases totaling approximately \$3,700 of improper calls were referred to our office and the Attorney General's Office for investigation as required by section 5-13-309, MCA.

At the end of 1996, the office had identified an additional instance where a student who was participating in the Talent Search Program obtained an employee's telephone calling card number and used it without permission. The office did not detect this inappropriate use in a timely manner because the employee with the telephone calling card was not completing and submitting telephone logs. This student charged \$830 worth of inappropriate calls.

Findings and Recommendations

Although the office has controls in place to identify improper calling card usage, it is important that they stress the importance of these controls to employees. If employees do not follow the established controls, disciplinary action should be taken. Since the office properly reduced the costs charged to the federal grant, there are no federal questioned costs.

Recommendation #1

We recommend the office continue to improve internal controls over telephone calling cards.

Federal Cash Management

The Cash Management Improvement Act (CMIA) requires the U. S. Secretary of Treasury to enter into agreements with states to establish terms and conditions for cash management for certain federal grants programs. The office participates in one grant to which the CMIA agreement applies. This grant is the Vocational Education - Basic Grants to States (CFDA #84.048A), formerly known as the Carl Perkins grant. Under the agreement, the office must request funds based upon two patterns of expenditures. The office requests cash from the U. S. Treasury on an average clearance pattern for the payment of benefit expenses. The benefit expenses occur when the office makes payments for grant projects to the Office of Public Instruction (OPI), university units, or community - based organizations. The second method requests cash to recover direct administrative costs and should be requested every two weeks to coincide with the biweekly payroll. By requesting the funds in accordance with the established clearance pattern, the office can ensure federal cash is appropriately managed.

We reviewed the office's procedures for requesting and expending federal funds for the Vocational Education - Basic Grants to States to determine if the cash requests were being made in accordance with the CMIA agreement. We determined office personnel did not follow the agreement. Using the average clearance pattern, personnel should have drawn down the exact amount of the benefit payments to arrive six days after disbursement of the grant benefit. At times personnel requested the funds before the disbursement

occurred and the amount of draw did not equal the disbursement amount. Also a review of the draws requested for direct administrative costs revealed the draws did not coincide with the paydays of the payroll cycle.

The CMIA agreement between the state and U.S. Treasury indicates the draw pattern that should be followed for each major federal financial assistance program within the state, including the Vocational Education Funds. Federal regulations indicate a state will incur interest liability to the federal government if federal funds are in a state account prior to the day the state pays out the funds for program purposes. Under the state's CMIA agreement it is the Department of Administration's (D of A) responsibility to calculate the interest payment for the assistance programs falling under the provisions of CMIA. In fiscal year 1995-96, the state had to return \$2,420 of interest related to the Vocational Education - Basic State Grant for failure to follow established clearance patterns.

According to office personnel, the clearance patterns outlined in the CMIA were not always followed for a number of reasons. Personnel believed the time spent tracking expenditures for a draw request was not cost beneficial for the amount of money involved. Requests for cash would have been made approximately 90 times for university and community-based grants, 26 times for direct administration expenses and 11 times for funds transferred to OPI in fiscal year 1995-96. Personnel believed they would need an additional employee to track expenditures and request draws if the agreement as written was followed. Also, personnel indicated the average clearance pattern does not make sense for funds transferred between the office and other state agencies such as OPI and the university units since no state warrants are written in these circumstances.

Office personnel should work with D of A Accounting Bureau personnel to modify the Vocational Education cash request schedule if they do not believe the current methods are reasonable. Otherwise, they should develop procedures to monitor disbursements of funds and ensure the requests of funds are being made in compliance with the CMIA agreement.

Findings and Recommendations

Recommendation #2

We recommend the office:

- A. Follow the terms and conditions of the cash management improvement act agreement for cash requests related to the Vocational Educational - Basic Grants to States program.
- B. Work with the Department of Administration to modify the cash draw techniques if the current schedules are not appropriate.

Federal Reporting

Office personnel did not correctly complete annual federal reports for the federal year ended September 30, 1996 for the Vocational Education - Basic Grants to States (CFDA #84.048A). The reports did not properly reflect the spending of the Vocational Education funds within the allocations required by federal law (P.L.101-392 Sec 102). The law requires that certain percentages of the allocation be used for specific purposes. For example a specified percentage must be used for single parents, single pregnant women, displaced homemakers, (SP/SPW/DH), a specified percent must be used for gender equity and a specified percent be used for programs for criminal offenders.

Two federal reports were filed for the year ended September 30, 1996. The table below shows the reporting errors for certain categories within the grant.

Table 1
Federal Reporting Errors

| <u>Perkins Part B Funds Report/Category</u> | <u>Reported Amount</u> | <u>Correct Amount</u> | <u>Difference</u> |
|---|----------------------------|---------------------------|-------------------|
| Carryover Report (Funding Period 7-94 to 9-95) | | | |
| Criminal Offender | \$ 14,675 | \$ 44,293 | \$(29,618) |
| SP/SPW/DH | 333,617 | 333,190 | 427 |
| Gender Equity | <u>184,218</u> | <u>155,027</u> | <u>29,191</u> |
| Total | <u>\$532,510</u> | <u>\$532,510</u> | <u>\$ 0</u> |
| Current Year Report (Funding Period 7-95 to 9-96) | | | |
| Criminal Offender | \$ 65,786 | \$ 36,168 | \$ 29,618 |
| SP/SPW/DH | 305,095 | 305,522 | (427) |
| Gender Equity | <u>119,152</u> | <u>148,343</u> | <u>(29,191)</u> |
| Total | <u>\$490,033</u> | <u>\$490,033</u> | <u>\$ 0</u> |

Source: Prepared by the Legislative Audit Division from agency records.

Even though an error occurred in completing the federal reports, the office correctly spent the money within each of the grant allocation categories and the state's accounting records reflect the proper spending among the allocations. To ensure the federal government does not initiate penalties for noncompliance with federal regulations, it is important the office file amended reports.

The person preparing the report attributed the error to the fact this was the first time they had completed this federal report. Personnel also indicated they would submit amended reports to correct the errors. In order to avoid reporting errors in the future the office should establish procedures to verify the spending reported within the allocations is properly reported.

Findings and Recommendations

Recommendation #3

We recommend the office:

- A. Establish procedures to ensure the spending within the allocation of the Vocational Education - Basic Grants to States is properly reported.
- B. File amended reports to correct the inaccurate reporting for the federal fiscal year ended September 30, 1996.

Accounting for Leave on a Time and Effort Basis

The office uses an after-the-fact time and effort reporting system to ensure the personal service expenditures are properly allocated among the various federal grants. Personal service costs are initially charged to federal grants on a budget basis. Each quarter, office personnel adjust the state's accounting records to reflect the actual hours spent on various federal grants. However the adjustments do not include costs associated with holidays, annual leave and sick leave. These costs remain on the accounting records on the budget basis.

Office personnel prepared a spreadsheet to document the significance of this problem. Based on the office documentation, the Vocational Education - Basic Grants to States (CFDA #84.048A) was overcharged \$2,751 and School to Work State Development Grant (CFDA #17.249) being undercharged \$3,536 during fiscal year 1996-97. The General Fund was overcharged \$856 and the Guaranteed Student Loan program was undercharged \$71 during the same period. As a result we question \$2,751 in costs of Basic Grants to States for fiscal year 1996-97. The net effect to all federal programs is an undercharge of \$856.

Federal regulations require the office to properly account for all activity for which employees are compensated. This activity includes the costs of holidays, annual leave and sick leave. The after-the-fact allocation should split leave time in the same proportion as direct time.

Recommendation #4

We recommend the office allocate all personal service activity on an after the fact time and effort basis in accordance with federal regulations.

State Compliance

During our audit of the office, we tested compliance with state laws and regulations related to office operations. The following section discusses an instance of noncompliance with state law.

Vocational Technical Millage Recorded in the Wrong Fund

During the 1995 legislative session the law related to local mill levies assessed for Vocational Technical Education was modified so the funds would be deposited into the General Fund starting in fiscal year 1996-97. During fiscal year 1996-97 the collections from this tax were deposited into the state Special Revenue Fund instead of the General Fund. In February 1997 a correction was made, but additional money was still deposited into the Special Revenue Fund.

Based on this error, the tax revenues in the Special Revenue Fund are overstated by \$314,086. This resulted in the Special Revenue Fund balance being overstated and the fund balance for the state General Fund being understated by the same amount. This error resulted in a qualification of our opinion on the financial schedules as discussed on page A-3.

Personnel indicated that the Department of Administration, Treasury Unit is responsible for recording the tax revenues in the proper fund. Since the treasury unit had made one correction, personnel assumed they would also correct the remaining error as well.

Findings and Recommendations

Recommendation #5

We recommend the office work with the Department of Administration to ensure:

- A. All future mill levy revenue is properly recorded on the accounting records.
- B. \$314,086 is transferred to the General Fund from the Special Revenue Fund.

Prescription Drug Rebates

The university system contracted with a prescription drug company to establish a system to request and bill drug manufacturers for rebates associated with prescription drugs purchased under the Montana University System group insurance plan. The office receives 75 percent of the rebate or \$.80 per prescription, whichever is greater. The state's share of the manufacturer drug rebate associated with the drugs sold through the plan's mail order pharmacy is by contract given to the mail order pharmacy.

When the office receives the drug rebates they abate prescription drug expenditures. State accounting policy allows expenditure abatements for refunds of overpayments that are directly identifiable with an expenditure made to the same outside party and credited to the same object of expenditure. The Department of Administration which has a similar contract with the same provider under another state health plan, recognizes the rebate as revenue.

Office personnel indicated that they abate expenditures because the rebates are refunds. Since the drug rebates are from drug manufacturers, and the original drug payments are made to local drug stores, the refund is not associated with an expenditure made to the same outside party. Also, the drug rebate is based on the full cost of the drug, but the insurance plan only pays a portion of the drug costs, because the employee is responsible for paying a co-payment. As a result of this error revenues and expenditures are understated in the internal service fund by \$72,468 and \$167,862 in fiscal years 1995-96 and 1996-97, respectively.

We also noted that when the office remitted the rebate to the mail order pharmacy, they remitted 100 percent of the rebate rather than just the 75 percent which was required per the contract. The office overpaid the mail order pharmacy \$8,309. Office personnel indicated that there was some confusion as to what number from the reports should be used, and they incorrectly paid the mail order pharmacy.

Recommendation #6

We recommend the office:

- A. Seek reimbursement for the \$8,309 overpayment to the mail order pharmacy.**
- B. Implement procedures to ensure the proper amount of prescription drug rebates is paid to the mail order company.**
- C. Ensure prescription drug rebates are properly recorded as revenue on the accounting records.**

Agency Fund Authority

State law requires state agencies to input all necessary transactions to the accounting system before the accounts are closed at the end of the year to present the receipt, use, and disposition of all money and property for which the agency is accountable, in accordance with generally accepted accounting principles.

An Agency Fund is used to account for assets belonging to other individuals, governments or funds. Revenues and expenditures should not be recorded in an Agency Fund under state law and accounting policy. The office has several agency funds to account for retirement funds that will be transmitted to the optional retirement plan provider; college license plate fees that will be forwarded to the university foundations; and money provided to employees under the wellness program.

The office currently records the amount due to these individuals or entities as an accounts payable rather than property held in trust.

Findings and Recommendations

Any increases to the accounts are recorded as revenue and decreases are recorded as expenditures. These should be recorded as increases and decreases to property held in trust.

Office personnel indicated that they had always viewed the agency fund as just another fund type that would show revenues and expenditures associated with someone else's money. The office should record agency activity in accordance with state law and policy.

Recommendation #7

We recommend the office record Agency Fund activity in accordance with state law and policy.

Insurance Plan Participation

State law authorizes the Board of Regents to form a group medical and life insurance plan for the benefit of its officers and employees. The office administers the Montana University System (MUS) group insurance plan. The MUS group insurance plan provides coverage to employees of the Montana Higher Education Student Assistance Corporation, five employees of the state bar and members of several other groups. These individuals are not employees of the university system. Section 33-1-102(8)(b), MCA, exempts under the Montana Insurance Code any plan in which a political subdivision provides coverage to its officers or employees from regulation.

Section 33-2-101(1), MCA, states no insurer shall provide insurance in Montana except as authorized by a certificate of authority issued by the Insurance Commissioner. MUS group insurance does not have such certificate. By acting as an insurer for individuals who are not employees or officers of the university system, we question whether the MUS group plan insurance is exempt from regulation by state insurance law. Without the exemption, MUS would be subject to premium tax, regulation, and reporting requirements.

In our previous audit, we disclosed this issue and reported we had requested, in conjunction with the office, an opinion on the issue from the Insurance Commissioner. The Insurance Commissioner reviewed the case and said that including these individuals in the MUS group insurance plan was in fact, a violation of state law. He did qualify his stance by stating these individuals entered the insurance plan in good faith, and they should not be penalized. The insurance Commissioner then provided an exemption for existing participants, but no additional individuals may join the plan.

Independent Auditor's Report & Agency Financial Schedules

LEGISLATIVE AUDIT DIVISION

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Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Board of Regents and the Office of the Commissioner of Higher Education (office) for each of the two fiscal years ended June 30, 1996 and 1997, as shown on pages A-5 through A-20. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

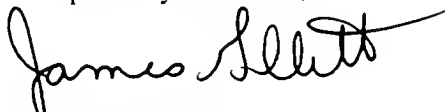
We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the office's assets, liabilities and cash flows.

The revenue from Vocational Technical Education mill levies was improperly reported in the office's Special Revenue Fund rather than the Department of Administration's General Fund. As a result of this error, fiscal year 1996-97 budgeted revenue and ending fund balance are overstated by \$314,086 in the Special Revenue Fund on the Schedule of Changes in Fund Balance and Property Held in Trust, and the taxes revenue is overstated by the same amount on the Schedule of Total Revenues & Transfers-In the Special Revenue Fund.

In our opinion, except for the effect of the error described in the preceding paragraph, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and Property Held in Trust of the Board of Regents and the Office of the Commissioner of Higher Education for the two fiscal years ended June 30, 1996 and 1997, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett", with a long, sweeping horizontal line extending from the end of the signature.

James Gillett, CPA
Deputy Legislative Auditor

August 29, 1997

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

| | General Fund | Special Revenue Fund | Internal Service Fund | Agency Fund | Expendable Trust Fund |
|---|---------------------------|----------------------|-----------------------|-------------|-----------------------|
| FUND BALANCE: July 1, 1996 | | | | | |
| PROPERTY HELD IN TRUST: July 1, 1996 | \$ (93,801) | \$ 4,049,335 | \$ 4,123,547 | \$ 0 | \$ 260,815 |
| ADDITIONS | | | | | |
| Budgeted Revenues & Transfers-In | | | | | |
| Nonbudgeted Revenues & Transfers-In | | 10,038,704 | 21,513,839 | 28,471 | 204,574 |
| Prior Year Revenues & Transfers-In Adjustments | | (1,048) | | | |
| Cash Transfers In (Out) | 112,558,696 | 15,555,489 | | | |
| Additions to Property Held in Trust | | | | 25,282 | |
| Total Additions | 112,558,696 | 25,593,145 | 21,513,839 | 53,753 | 204,574 |
| REDUCTIONS | | | | | |
| Budgeted Expenditures & Transfers-Out | 112,896,455 | 23,985,557 | 24,628,715 | 28,471 | 58,834 |
| Nonbudgeted Expenditures & Transfers-Out | | | (1,667) | | |
| Prior Year Expenditures & Transfers-Out Adjustments | (109,909) | 31,815 | 7,147 | | |
| Total Reductions | 112,786,546 | 24,017,372 | 24,634,195 | 28,471 | 58,834 |
| FUND BALANCE: June 30, 1997 | \$ (321,651) ¹ | \$ 5,625,108 | \$ 1,003,191 | \$ 0 | \$ 406,555 |
| PROPERTY HELD IN TRUST: June 30, 1997 | | | | \$ 25,282 | |

¹ See note 2 on page A-18

² See note 5 on page A-19

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-17.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

| | General Fund | Special Revenue Fund | Internal Service Fund | Agency Fund | Expendable Trust Fund |
|---|--------------------------|----------------------|-----------------------|-------------|-----------------------|
| FUND BALANCE: July 1, 1995 | \$ (19,711) | \$ 3,231,575 | \$ 5,206,726 | \$ 0 | \$ 145,799 |
| PROPERTY HELD IN TRUST: July 1, 1995 | | | | \$ 10,561 | |
| ADDITIONS | | | | | |
| Budgeted Revenues & Transfers-In | | 11,345,532 | 20,679,359 | | 193,669 |
| Nonbudgeted Revenues & Transfers-In | | 15,000 | | 35,823 | |
| Prior Year Revenues & Transfers-In Adjustments | | 2,949 | (50) | | |
| 2 Cash Transfers In (Out) | 108,049,426 | 14,584,927 | | | |
| Direct Entries to Fund Balance | | (10,297) | | | |
| Total Additions | 108,049,426 | 25,938,110 | 20,679,309 | 35,823 | 193,669 |
| REDUCTIONS | | | | | |
| Budgeted Expenditures & Transfers-Out | 108,118,752 | 25,262,823 | 21,746,920 | | 78,652 |
| Nonbudgeted Expenditures & Transfers-Out | | 15,000 | (2,517) | 35,823 | |
| Prior Year Expenditures & Transfers-Out Adjustments | 4,764 | (157,473) | 18,085 | | |
| Reductions to Property Held in Trust | | | | 10,561 | |
| Total Reductions | 108,123,516 | 25,120,350 | 21,762,488 | 46,384 | 78,652 |
| FUND BALANCE: June 30, 1996 | \$ (93,801) ¹ | \$ 4,049,335 | \$ 4,123,547 | \$ 0 | \$ 260,815 |
| PROPERTY HELD IN TRUST: June 30, 1996 | | | | | |

¹ See note 2 on page A-18

² See note 5 on page A-19

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-17.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | | |
|--|----------------------|-----------------------|-------------|-----------------------|---------------|
| | Special Revenue Fund | Internal Service Fund | Agency Fund | Expendable Trust Fund | Total |
| Taxes | \$ 314,086 | | | | \$ 314,086 |
| Charges for Services | 2,548,707 | | | 185,424 | 2,734,131 |
| Investment Earnings | 340,391 | \$ 298,422 | | 19,150 | 657,963 |
| Contributions and Premiums | | 21,215,417 | \$ 28,471 | | 21,243,888 |
| Miscellaneous | | | | | 0 |
| Other Financing Sources | 16,543 | | | | 16,543 |
| Federal | 6,817,928 | | | | 6,817,928 |
| Total Revenues & Transfers-In | 10,037,655 | 21,513,839 | 28,471 | 204,574 | 31,784,539 |
| Less: Nonbudgeted Revenues & Transfers-In | | | | | |
| Prior Year Revenues & Transfers-In Adjustments | (1,048) | | 28,471 | | 28,471 |
| Actual Budgeted Revenues & Transfers-In | 10,038,703 | 21,513,839 | 0 | 204,574 | 31,757,116 |
| Estimated Revenues & Transfers-In | 10,392,253 | 1,918,300 | | 200,000 | 12,510,553 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | \$ (353,550) | \$ 19,595,539 | \$ 0 | \$ 4,574 | \$ 19,246,563 |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | | |
| Taxes | \$ (593,092) | | | | \$ (593,092) |
| Charges for Services | 303,534 | | | (4,576) | 298,958 |
| Investment Earnings | (59,610) | \$ (101,578) | | 9,150 | (152,038) |
| Contributions and Premiums | | 19,697,117 | | | 19,697,117 |
| Miscellaneous | | | | | 0 |
| Other Financing Sources | (4,382) | | | | 0 |
| Federal | (353,550) | | | | (4,382) |
| Budgeted Revenues & Transfers-In Over (under) Estimated | \$ (353,550) | \$ 19,595,539 | \$ 0 | \$ 4,574 | \$ 19,246,563 |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-17.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | |
|--|-------------------------|--------------------------|--------------------------|--------------|
| | Special Revenue Fund | Internal Service Fund | Expendable Trust Fund | Total |
| Taxes | \$ 1,034,104 | | | \$ 1,034,104 |
| Charges for Services | 2,492,582 | | \$ 181,848 | 2,674,430 |
| Investment Earnings | 402,350 | \$ 400,331 | 11,821 | 814,502 |
| Contributions and Premiums | | 20,278,978 | | 20,278,978 |
| Miscellaneous | 330,289 | | | 0 |
| Other Financing Sources | 7,104,155 | | | 330,289 |
| Federal | 11,363,480 | 20,679,309 | 193,669 | 7,104,155 |
| Total Revenues & Transfers-In | | | | 32,236,458 |
| Less: Nonbudgeted Revenues & Transfers-In | 15,000 | | | 15,000 |
| Prior Year Revenues & Transfers-In Adjustments | 2,949 | (50) | | 2,899 |
| Actual Budgeted Revenues & Transfers-In | 11,345,531 | 20,679,359 | 193,669 | 32,218,559 |
| Estimated Revenues & Transfers-In | 13,043,234 | 18,730,000 | 192,628 | 31,965,862 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | \$ (1,697,703) | \$ 1,949,359 | \$ 1,041 | \$ 252,697 |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | |
| Taxes | \$ (867,480) | | \$ (8,280) | \$ (867,480) |
| Charges for Services | (124,396) | | | (132,676) |
| Investment Earnings | 210,712 | \$ 200,331 | 9,321 | 420,364 |
| Contributions and Premiums | | 1,749,028 | | 1,749,028 |
| Miscellaneous | (916,539) | | | 0 |
| Other Financing Sources | (1,697,703) | | | 0 |
| Federal | | | | (916,539) |
| Budgeted Revenues & Transfers-In Over (under) Estimated | \$ (1,697,703) | \$ 1,949,359 | \$ 1,041 | \$ 252,697 |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-17.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

| | Administration Program | Student Assistance Program | DDE Mathematics & Sci Ed Act | Community College Assistance | Mus Group Insurance Program | Talent Search | C.D. Perkins Admin | Appropriation Distribution | Tribal College Assistance | Guaranteed Student Loan Pgm | Board Of Regents-Admin | B Of R Bond Payments | Total |
|---|---------------------------|----------------------------------|------------------------------------|------------------------------------|-----------------------------------|-------------------|------------------------|-------------------------------|------------------------------|-----------------------------------|---------------------------|-------------------------|-----------------------|
| PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT | | | | | | | | | | | | | |
| Personal Services | | | | | | | | | | | | | |
| Salaries | \$ 872,138 | | \$ 1,911 | | \$ 92,349 | \$ 282,294 | \$ 149,190 | | | \$ 893,582 | | | \$ 2,091,484 |
| Other Compensation | | | | | | | | | | | \$ 9,800 | | 9,800 |
| Employee Benefits | 142,835 | | 528 | | 23,048 | 76,000 | 36,280 | \$ 195,799 | | 248,632 | | | 723,122 |
| Personal Services-Other | | | | | 3,482 | | | | | | | | 3,482 |
| Total | <u>814,973</u> | | <u>2,439</u> | | <u>118,879</u> | <u>358,294</u> | <u>185,470</u> | <u>195,799</u> | | <u>1,142,214</u> | <u>9,800</u> | | <u>2,827,868</u> |
| Operating Expenses | | | | | | | | | | | | | |
| Other Services | 48,422 | | 400 | | 1,564,880 | 11,373 | 12,966 | | | 810,614 | 11,624 | | 2,460,279 |
| Supplies & Materials | 4,552 | | 26 | | 16,875 | 25,493 | 10,704 | | | 24,663 | 78 | | 83,391 |
| Communications | 29,936 | | | | 3,666 | 14,312 | 26,649 | | | 120,280 | 417 | | 195,260 |
| Travel | 22,633 | | 188 | | 3,513 | 41,798 | 28,888 | | | 35,457 | 18,199 | | 150,676 |
| Rent | 82,478 | | | | 580 | 1,215 | 3,345 | | | 149,650 | | | 237,288 |
| Utilities | 11,196 | | | | | | | | | 14,932 | | | 26,128 |
| Repair & Maintenance | 15,856 | | | | | 160 | 35 | | | 78,293 | | | 94,344 |
| Other Expenses | (6,000) | | | | 507,104 | 36,224 | 42,896 | | | 409,500 | 6,088 | | 995,812 |
| Total | <u>209,073</u> | | <u>614</u> | | <u>2,096,618</u> | <u>130,575</u> | <u>125,483</u> | | | <u>1,643,389</u> | <u>36,406</u> | | <u>4,242,158</u> |
| Equipment & Intangible Assets | | | | | | | | | | | | | |
| Equipment | 129,037 | | | | | 6,062 | 14,364 | | | 83,387 | | | 212,850 |
| Intangible Assets | 3,920 | | | | | 1,858 | | | | 152,391 | | | 158,169 |
| Total | <u>132,957</u> | | | | | <u>7,920</u> | <u>14,364</u> | | | <u>215,778</u> | | | <u>371,019</u> |
| Local Assistance | | | | | | | | | | | | | |
| From State Sources | | \$ 79,000 | | \$ 4,981,743 | | | | | | | | | 5,060,743 |
| Total | | <u>79,000</u> | | <u>4,981,743</u> | | | | | | | | | <u>5,060,743</u> |
| Grants | | | | | | | | | | | | | |
| From State Sources | | 5,059,913 | | | | | | | | | | | 5,059,913 |
| From Federal Sources | | 87,878 | 202,374 | | | | 2,114,552 | | \$ 436,895 | | | | 2,841,699 |
| From Other Sources | | 58,834 | | | | | | | | | | | 58,834 |
| Total | | <u>5,206,625</u> | <u>202,374</u> | | | | <u>2,114,552</u> | | <u>436,895</u> | | | | <u>7,960,446</u> |
| Benefits & Claims | | | | | | | | | | | | | |
| Insurance Payments | | | | | 22,418,698 | | | | | | | | 22,418,698 |
| Total | | | | | <u>22,418,698</u> | | | | | | | | <u>22,418,698</u> |
| Transfers | | | | | | | | | | | | | |
| Accounting Entity Transfers | | | | | | | 2,675,956 ¹ | 115,835,393 | | | | | 118,511,349 |
| Total | | | | | | | <u>2,675,956</u> | <u>115,835,393</u> | | | | | <u>118,511,349</u> |
| Debt Service | | | | | | | | | | | | | |
| Leases | | | | | | | | | | 4,061 | | \$ 100,605 | 104,666 |
| Total | | | | | | | | | | <u>4,061</u> | | <u>100,605</u> | <u>104,666</u> |
| Total Program Expenditures & Transfers-Out | <u>\$ 1,157,003</u> | <u>\$ 5,285,625</u> | <u>\$ 205,427</u> | <u>\$ 4,981,743</u> | <u>\$ 24,634,195</u> | <u>\$ 496,789</u> | <u>\$ 5,115,825</u> | <u>\$ 116,031,192</u> | <u>\$ 436,895</u> | <u>\$ 3,005,442</u> | <u>\$ 46,206</u> | <u>\$ 100,605</u> | <u>\$ 161,496,947</u> |
| PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND | | | | | | | | | | | | | |
| General Fund | \$ 1,157,003 | \$ 5,138,913 | | \$ 4,981,743 | | \$ 78,311 | \$ 71,809 | \$ 100,775,061 | \$ 436,895 | | \$ 46,206 | \$ 100,605 | \$ 112,786,546 |
| Special Revenue Fund | | 87,878 | \$ 205,427 | | | 418,478 | 5,044,016 | 15,256,131 | | \$ 3,005,442 | | | 24,017,372 |
| Internal Service Fund | | | | | \$ 24,634,195 | | | | | | | | 24,634,195 |
| Expendable Trust Fund | | 58,834 | | | | | | | | | | | 58,834 |
| Total Program Expenditures & Transfers-Out | <u>1,157,003</u> | <u>5,285,625</u> | <u>205,427</u> | <u>4,981,743</u> | <u>24,634,195</u> | <u>496,789</u> | <u>5,115,825</u> | <u>116,031,192</u> | <u>436,895</u> | <u>3,005,442</u> | <u>46,206</u> | <u>100,605</u> | <u>161,496,947</u> |
| Less Nonbudgeted Expenditures & Transfers-Out | | | | | (1,666) | | | | | | | | 1,666 |
| Prior Year Expenditures & Transfers-Out Adjustments | (7,459) | (3,804) | (38) | | 7,147 | 217 | (67,505) | | | 495 | | | (70,947) |
| Actual Budgeted Expenditures & Transfers-Out | <u>1,164,462</u> | <u>5,289,429</u> | <u>205,465</u> | <u>4,981,743</u> | <u>24,628,714</u> | <u>496,572</u> | <u>5,183,330</u> | <u>116,031,192</u> | <u>436,895</u> | <u>3,004,947</u> | <u>46,206</u> | <u>100,605</u> | <u>161,569,561</u> |
| Budget Authority | <u>1,244,698</u> | <u>5,660,536</u> | <u>326,123</u> | <u>4,981,743</u> | <u>24,854,233</u> | <u>536,251</u> | <u>6,035,171</u> | <u>117,249,421</u> | <u>931,299</u> | <u>3,423,216</u> | <u>46,563</u> | <u>100,605</u> | <u>165,389,860</u> |
| Unspent Budget Authority | <u>\$ 80,236</u> | <u>\$ 371,107</u> | <u>\$ 120,658</u> | <u>\$ 0</u> | <u>\$ 225,519</u> | <u>\$ 39,679</u> | <u>\$ 851,841</u> | <u>\$ 1,218,229</u> | <u>\$ 494,404</u> | <u>\$ 418,269</u> | <u>\$ 357</u> | <u>\$ 0</u> | <u>\$ 3,820,299</u> |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | | | | | | | | | | |
| General Fund | \$ 41,680 | \$ 12,913 | | | | \$ 3,849 | \$ 10,622 | \$ 1,068,580 | \$ 494,404 | | \$ 357 | | \$ 1,632,405 |
| Special Revenue Fund | 38,556 | 217,028 | \$ 120,658 | | | 35,830 | 841,219 | 149,649 | | \$ 418,269 | | | 1,821,209 |
| Internal Service Fund | | | | | \$ 225,519 | | | | | | | | 225,519 |
| Expendable Trust Fund | | 141,186 | | | | | | | | | | | 141,166 |
| Unspent Budget Authority | <u>\$ 80,236</u> | <u>\$ 371,107</u> | <u>\$ 120,658</u> | <u>\$ 0</u> | <u>\$ 225,519</u> | <u>\$ 39,679</u> | <u>\$ 851,841</u> | <u>\$ 1,218,229</u> | <u>\$ 494,404</u> | <u>\$ 418,269</u> | <u>\$ 357</u> | <u>\$ 0</u> | <u>\$ 3,820,299</u> |

¹ See note 6 on page A-20

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

| | Administration Program | Student Assistance Program | DDE Mathematics & Sci Ed Act | Community College Assistance | Mus Group Insurance Program | Talent Search | Vo-Tech Approp. Distrib. | C.D. Perkins Admin | Appropriation Distribution | Tribal College Assistance | Guaranteed Student Loan Pgm | Board Of Regents-Admin | B Of R Bond Payments | Total |
|---|---------------------------|----------------------------------|------------------------------------|------------------------------------|-----------------------------------|-------------------|-----------------------------|-----------------------|-------------------------------|------------------------------|-----------------------------------|---------------------------|-------------------------|-----------------------|
| PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT | | | | | | | | | | | | | | |
| Personal Services | | | | | | | | | | | | | | |
| Salaries | \$ 619,942 | | \$ 1,323 | | \$ 100,039 | \$ 269,120 | | \$ 140,489 | | | \$ 904,276 | | | \$ 2,035,189 |
| Other Compensation | | | | | | | | | | | | \$ 5,650 | | 5,650 |
| Employee Benefits | 135,544 | | 205 | | 24,497 | 69,751 | | 32,064 | | | 268,626 | | | 530,687 |
| Personal Services-Other | | | | | (4,415) | | | | | | | | | (4,415) |
| Total | <u>755,486</u> | | <u>1,528</u> | | <u>120,121</u> | <u>338,871</u> | | <u>172,553</u> | | | <u>1,172,902</u> | <u>5,650</u> | | <u>2,567,111</u> |
| Operating Expenses | | | | | | | | | | | | | | |
| Other Services | 143,022 | | 300 | | 1,420,486 | 22,113 | | 43,915 | | | 689,427 | 300 | | 2,319,563 |
| Supplies & Materials | (481) | | | | 9,775 | 37,976 | | 3,832 | | | 29,439 | 107 | | 80,648 |
| Communications | 30,495 | | | | 3,753 | 15,530 | | 16,364 | | | 90,532 | 172 | | 156,846 |
| Travel | 27,711 | | 181 | | 7,750 | 41,374 | | 36,800 | | | 44,775 | 8,271 | | 166,862 |
| Rent | 86,992 | | | | 930 | 1,168 | | 1,347 | | | 152,463 | | | 242,900 |
| Utilities | 9,049 | | | | | | | | | | 8,496 | | | 17,545 |
| Repair & Maintenance | 18,262 | | | | | 110 | | | | | 77,576 | | | 95,948 |
| Other Expenses | (10,499) | | | | 495,257 | 36,674 | | 10,815 | | | 395,266 | 5,650 | | 933,163 |
| Total | <u>304,551</u> | | <u>481</u> | | <u>1,937,951</u> | <u>154,945</u> | | <u>113,073</u> | | | <u>1,487,974</u> | <u>14,500</u> | | <u>4,013,475</u> |
| Equipment & Intangible Assets | | | | | | | | | | | | | | |
| Equipment | 14,592 | | | | | 3,574 | | 6,738 | | | 59,852 | | | 84,756 |
| Capital Leases - Equipment | | | | | | | | | | | 15,000 | | | 15,000 |
| Intangible Assets | 2,122 | | | | 236 | 2,045 | | 224 | | | 10,881 | | | 15,508 |
| Total | <u>16,714</u> | | | | <u>236</u> | <u>5,619</u> | | <u>6,962</u> | | | <u>85,733</u> | | | <u>115,264</u> |
| Local Assistance | | | | | | | | | | | | | | |
| From State Sources | | \$ 79,000 | | \$ 4,867,803 | | | | | | | | | | 4,946,803 |
| Total | | <u>79,000</u> | | <u>4,867,803</u> | | | | | | | | | | <u>4,946,803</u> |
| Grants | | | | | | | | | | | | | | |
| From State Sources | | 5,160,997 | | | | | | | | | | | | 5,160,997 |
| From Federal Sources | | 173,622 | 163,996 | | | | | 2,180,765 | | \$ 468,701 | | | | 2,987,084 |
| From Other Sources | | 78,652 | | | | | | | | | | | | 78,652 |
| Total | | <u>5,413,271</u> | <u>163,996</u> | | | | | <u>2,180,765</u> | | <u>468,701</u> | | | | <u>8,226,733</u> |
| Benefits & Claims | | | | | | | | | | | | | | |
| To Individuals | | | | | | | | | | | | | | |
| Insurance Payments | | | | | 19,704,180 | | | | | | | | | 19,704,180 |
| Total | | | | | <u>19,704,180</u> | | | | | | | | | <u>19,704,180</u> |
| Transfers | | | | | | | | | | | | | | |
| Accounting Entity Transfers | | | | | | | \$ 425 | 2,999,852 | \$ 112,403,221 | | | | | 115,403,498 |
| Total | | | | | | | <u>425</u> | <u>2,999,852</u> | <u>112,403,221</u> | | | | | <u>115,403,498</u> |
| Debt Service | | | | | | | | | | | | | | |
| Leases | | | | | | | | | | | 1,874 | | \$ 106,068 | 107,942 |
| Total | | | | | | | | | | | <u>1,874</u> | | <u>106,068</u> | <u>107,942</u> |
| Total Program Expenditures & Transfers-Out | \$ <u>1,076,751</u> | \$ <u>5,492,271</u> | \$ <u>166,005</u> | \$ <u>4,867,803</u> | \$ <u>21,762,488</u> | \$ <u>499,435</u> | \$ <u>425</u> | \$ <u>5,473,205</u> | \$ <u>112,403,221</u> | \$ <u>468,701</u> | \$ <u>2,748,483</u> | \$ <u>20,150</u> | \$ <u>106,068</u> | \$ <u>155,085,006</u> |
| PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND | | | | | | | | | | | | | | |
| General Fund | \$ 1,044,836 | \$ 5,239,997 | | \$ 4,867,803 | | \$ 92,299 | | \$ 81,827 | \$ 96,201,835 | \$ 468,701 | | \$ 20,150 | \$ 106,068 | \$ 108,123,516 |
| Special Revenue Fund | 31,915 | 173,622 | \$ 166,005 | | | 407,136 | \$ 425 | 5,391,378 | 16,201,386 | | \$ 2,748,483 | | | 25,120,350 |
| Internal Service Fund | | | | | \$ 21,762,488 | | | | | | | | | 21,762,488 |
| Expendable Trust Fund | | 78,652 | | | | | | | | | | | | 78,652 |
| Total Program Expenditures & Transfers-Out | <u>1,076,751</u> | <u>5,492,271</u> | <u>166,005</u> | <u>4,867,803</u> | <u>21,762,488</u> | <u>499,435</u> | <u>425</u> | <u>5,473,205</u> | <u>112,403,221</u> | <u>468,701</u> | <u>2,748,483</u> | <u>20,150</u> | <u>106,068</u> | <u>155,085,006</u> |
| Less: Nonbudgeted Expenditures & Transfers-Out | | | | | (2,517) | | | | | | 15,000 | | | 12,483 |
| Prior Year Expenditures & Transfers-Out Adjustments | (267) | (2,050) | (25,012) | (1,309) | 18,085 | (1,132) | | (117,480) | | | (5,460) | | | (134,625) |
| Actual Budgeted Expenditures & Transfers-Out | <u>1,077,018</u> | <u>5,494,321</u> | <u>191,017</u> | <u>4,869,112</u> | <u>21,746,920</u> | <u>500,567</u> | <u>425</u> | <u>5,590,685</u> | <u>112,403,221</u> | <u>468,701</u> | <u>2,738,943</u> | <u>20,150</u> | <u>106,068</u> | <u>155,207,148</u> |
| Budget Authority | <u>1,195,727</u> | <u>5,827,067</u> | <u>318,169</u> | <u>4,869,112</u> | <u>22,752,053</u> | <u>541,381</u> | <u>425</u> | <u>5,970,002</u> | <u>112,535,846</u> | <u>1,400,000</u> | <u>3,281,373</u> | <u>33,092</u> | <u>106,068</u> | <u>158,830,314</u> |
| Unspent Budget Authority | \$ <u>118,708</u> | \$ <u>332,746</u> | \$ <u>127,152</u> | \$ <u>0</u> | \$ <u>1,005,133</u> | \$ <u>40,814</u> | \$ <u>0</u> | \$ <u>379,317</u> | \$ <u>132,625</u> | \$ <u>931,299</u> | \$ <u>542,430</u> | \$ <u>12,942</u> | \$ <u>0</u> | \$ <u>3,623,166</u> |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | | | | | | | | | | | |
| General Fund | \$ 76,263 | \$ 116,961 | | | | \$ 5,187 | | \$ 7,028 | | \$ 931,299 | | \$ 12,942 | | \$ 1,149,680 |
| Special Revenue Fund | 42,445 | 130,424 | \$ 127,152 | | | 35,627 | | 372,289 | \$ 132,625 | | \$ 542,430 | | | 1,382,992 |
| Internal Service Fund | | | | \$ 1,005,133 | | | | | | | | | | 1,005,133 |
| Expendable Trust Fund | | 85,361 | | | | | | | | | | | | 85,361 |
| Unspent Budget Authority | \$ <u>118,708</u> | \$ <u>332,746</u> | \$ <u>127,152</u> | \$ <u>0</u> | \$ <u>1,005,133</u> | \$ <u>40,814</u> | \$ <u>0</u> | \$ <u>379,317</u> | \$ <u>132,625</u> | \$ <u>931,299</u> | \$ <u>542,430</u> | \$ <u>12,942</u> | \$ <u>0</u> | \$ <u>3,623,166</u> |

See note 6 on page A-20

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-17.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1997

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental, Expendable Trust, and Agency Funds. In applying the modified accrual basis, the office records:

- Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
- Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual leave and sick leave when used or paid.

The office uses accrual basis accounting for the Proprietary Fund. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period earned when measurable and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the office received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the Statewide Budgeting and Accounting System without adjustment, except for the Agency Fund which was reclassified to reflect the additions and reductions to property held in trust.

Accounts are organized in funds according to state law. The office uses the following funds:

Notes to the Financial Schedules

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund. The office includes funds appropriated for general operations of the office and distributions to the two university units and the three community colleges for their general operations.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. The majority of this activity includes mill levy distributions to the university units and the federal programs including the Guaranteed Student Loan Program.

Proprietary Funds

Internal Service Fund - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. The Montana University System's (MUS) group health insurance plan is accounted for in this fund. The MUS Group Benefits plan was authorized by the Board of Regents to provide medical coverage to employees of the university system, as well as their dependents, retirees and Consolidated Omnibus Budget Reconciliation Act (COBRA) members. Beginning July 1, 1990 the MUS Group Benefit Plan is fully self insured.

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Office fiduciary funds include Agency Funds related to college license plates, wellness funds, and optional retirement funds and the Expendable Trust Fund related to the Rural Physicians Incentive Program. The legislature established the Rural Physicians Incentive Program to encourage physicians to locate in rural Montana areas by paying a portion of the physicians' educational debt.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within its appropriation limits. Each agency records cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets the office has placed in the fund,

resulting in negative ending fund balances for each of the two fiscal years ended June 30, 1996 and June 30, 1997.

3. Annual and Sick Leave

Employees at the office accumulate both annual and sick leave. The office pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the accompanying financial schedules. In the Proprietary Funds, the increase in annual and 25 percent of the increase in sick leave are recognized as nonbudgeted expenses when the related liability is recorded at year-end. The department absorbs expenditures for termination pay in its annual operational costs. At June 30, 1996 and at June 30, 1997, the office had a liability of \$247,971 and \$331,727, respectively for its Governmental Funds. The liability recorded in the Proprietary Fund was \$19,359 and \$22,841 in fiscal years 1995-96 and 1996-97, respectively.

4. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System (PERS), the Teachers Retirement System (TRS) or Teachers' Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF). The office's contributions to PERS, TRS and TIAA-CREF totaled \$163,933 in fiscal year 1995-96 and \$142,440 in fiscal year 1996-97.

5. Property Taxes

Section 20-25-423, MCA, levies property taxes to support, maintain and improve the Montana University System. The State Treasurer collects university property tax revenue and records it in a Special Revenue Fund of the Department of Revenue. These collections appear on the financial schedules as Cash Transfers-In in the Special Revenue Fund totaling \$13,585,680, and \$14,567,902 in fiscal years 1995-96 and 1996-97, respectively.

Section 20-16-202, MCA, levied property tax mills to support, maintain and improve the Montana Colleges of Technology through fiscal year 1995-96. The State Treasurer collected this property tax revenue and recorded it in the Special Revenue Fund. During fiscal year 1995-96 this activity was accounted for in the Special Revenue Fund as Budgeted Tax Revenue totaling \$1,034,104.

Notes to the Financial Schedules

Section 20-25-439, MCA, revised how the property tax mills for Montana Colleges of Technology was recorded. Starting in fiscal year 1996-97, the State Treasurer collected this revenue and recorded it in Department of Administration's General Fund. These collections appear on the financial schedules as Cash Transfers-In in the General Fund totaling \$830,174 for fiscal year 1996-97.

- | | | |
|----|--|--|
| 6. | <hr/> Vocational Education - Basic Grants to States | The office recorded expenditures of the Vocational Education - Basic Grants to States funds of \$5,163,041 and \$4,762,335 in fiscal years 1995-96 and 1996-97, respectively. The office contracted with the Office of Public Instruction (OPI) to manage the portion of these funds provided to secondary schools. The office transferred \$2,999,852 and \$2,657,956 in fiscal years 1995-96 and 1996-97, respectively, to OPI to fund secondary school vocational education projects. The office recorded funds received from the federal grantor (U.S. Department of Education) as Federal Revenues and the funds sent to OPI as Transfers-Out. |
| 7. | <hr/> General Fund Appropriations | House Bill 2, Laws of 1995, appropriated General Fund moneys to the office for distribution to the six units of the university system, and the three community colleges. The office accounts for this activity in the General Fund as Cash Transfers-In, Transfers-Out to universities and Local Assistance to community colleges. |
| 8. | <hr/> Related Party Transactions | The office and the Montana Higher Education Student Assistance Corporation (MHESAC) both have lease agreements with Lewis and Clark County for the building they are located in. The office has an agreement with MHESAC to share certain costs associated with the building. The office's Montana Guaranteed Student Loan Program (MGSLP) also has an agreement with MHESAC for the lease of computer equipment, and the supplies and personal services related to the computer system. MGSLP also receives certain services from state agencies that directly benefit MHESAC. MHESAC reimburses the office for these services. The office paid MHESAC \$295,887 and \$408,292 in fiscal years 1995-96 and 1996-97, respectively. MHESAC reimbursed the office for \$446,178 and \$451,626 in fiscal years 1995-96 and 1996-97, respectively, for shared costs. |

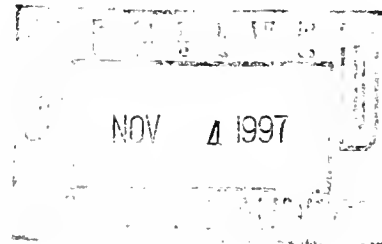
Agency Response



MONTANA UNIVERSITY SYSTEM
OFFICE OF COMMISSIONER OF HIGHER EDUCATION

2500 BROADWAY ♦ PO BOX 203101 ♦ HELENA, MONTANA 59620-3101 ♦ (406)444-6570 ♦ FAX (406)444-1469

November 4, 1997



Mr. Scott Seacat
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

Enclosed are the responses to the financial-compliance audit report of the Board of Regents and Commissioner of Higher Education for the two years ended June 30, 1997. We concur with the recommendations.

We wish to thank your staff for their suggestions for improving the effectiveness of the Office of the Commissioner of Higher Education and for their courtesy in working with our staff.

Sincerely,

A handwritten signature in cursive script that reads "Laurie O. Neils".

Laurie O. Neils
Director of Budget and Accounting

enclosures

RECOMMENDATION #1

We recommend the office continue to improve internal controls over telephone calling cards.

AGENCY RESPONSE:

Concur. The Office of the Commissioner of Higher Education sends a memo with each calling card issued which identifies the state policies and office policies related to telephone calling cards. Fiscal staff review phone records and notify supervisors when the appearance of inappropriate calls exists. Each supervisor is furnished copies of the phone records for their program on a monthly basis. Finally, the OCHE believes that it is the responsibility of each supervisor and ultimately, the Commissioner, to ensure that personnel follow policies and act in an ethical manner.

RECOMMENDATION #2

We recommend the office:

- A. Follow the terms and conditions of the cash management improvement act agreement for cash requests related to the Vocational Educational - Basic Grants to States program.
- B. Work with the Department of Administration to modify the cash draw techniques if the current schedules are not appropriate.

AGENCY RESPONSE:

Concur. The office has reviewed its cash management process related to the Carl Perkins Grant and will do further analysis to ensure that it meets the terms and conditions of the Cash Management Improvement Act. We will implement procedures to improve the timing and streamlining of disbursements to subgrantees.

RECOMMENDATION #3

We recommend the office:

- A. Establish procedures to ensure the spending within the allocation of the Vocational Education - Basic Grants to States is properly reported.
- B. File amended reports to correct the inaccurate reporting for the federal fiscal year ended September 30, 1996.

AGENCY RESPONSE:

Concur. The office will file amended reports when the annual Financial Status Report for State Administered Vocational Education Programs is submitted, by December 31, 1997.

RECOMMENDATION #4

We recommend the office allocate all personal service activity on an after-the-fact time and effort basis in accordance with federal regulations.

AGENCY RESPONSE:

Concur. The office has developed a procedure that allocates costs associated with holidays, annual leave, and sick leave in the same proportion as actual time worked in federal programs during a pay period.

RECOMMENDATION #5

We recommend the office work with the Department of Administration to ensure:

- A. All future mill levy revenue is properly recorded on the accounting records.
- B. \$314,086 is transferred to the General Fund from the Special Revenue Fund.

AGENCY RESPONSE:

- A. The agency no longer has control over the mill levy revenue since it is deposited into the State's General Fund. The fund balance in the account as of September 30, 1997, was zero.
- B. The Department of Administration, Treasury Division, made the transfer on 09/11/97.

RECOMMENDATION #6

We recommend the office:

- A. Seek reimbursement for the \$8,309 overpayment to the mail order pharmacy.
- B. Implement procedures to ensure the proper amount of prescription drug rebates is paid to the mail order company.
- C. Ensure prescription drug rebates are properly recorded as revenue on the accounting records.

AGENCY RESPONSE:

- A. The agency sent a letter to Buttrey Food and Drug on September 26, 1997.
- B. Procedures have been implemented to ensure the proper amount of rebates is paid to the mail order company.
- C. Rebates will be accounted for as revenue instead of expenditure abatement for FY98.

RECOMMENDATION #7

We recommend the office record Agency Fund Activity in accordance with State law and policy.

AGENCY RESPONSE:

The office will record Agency fund activity in accordance with State law and policy for FY98.

